

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-11 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /121 W
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FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC 5906
INFO AMEMBASSY BRASILIA
AMCONSUL RECIFE
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE RIO DE JANEIRO 1001

E.O. 11652: N/A
TAGS: EMIN, BR
SUBJECT: GOB DISCLOSES EXISTENCE OF LARGE IRON ORE RESERVES IN
NORTHEASTERN BRAZIL

1. MINES AND ENERGY MINISTER UEKI RECENTLY ANNOUNCED
DISCOVERY OF LARGE IRON ORE DEPOSITS IN NORTHEASTERN
BRAZILIAN STATE OF RIO GRANDE DO NORTE (RN). RESERVES,
LOCATED IN 500 SQUARE KILOMETER AREA BETWEEN CITIES
OF CURRAIS NOVOS AND CAICO, SOME 160 KMS FROM
ATLANTIC OCEAN, MAY ALSO CONTAIN SIGNIFICANT QUANTITIES
OF GOLD, LEAD AND MANGANESE, ACCORDING TO UEKI.
DEPARTAMENTO NACIONAL DE PRODUCAO MINERAL (DNPM) HEAD,
AVILA DA LUZ, LATER STATED THAT "MAGNIFICENT" RN IRON
DEPOSITS COULD CONTAIN AS MUCH AS 3 BILLION TONS OF
UP TO 67 PERCENT HEMATITE (AND ITABIRITE). AMCONSUL
RECIFE REPORTS THAT FURTHER EXPLORATION AND DEFINITION OF
IRON DEPOSITS WILL BE CARRIED OUT BY MINING ENTER-
PRISES, NOT BY DNPM.

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2. COMMENT: BEGIN LIMITED OFFICIAL USE. EXISTENCE
OF SIZEABLE QUANTITIES OF IRON (PARTICULARLY IN
HEMATITE FORM) IN CURRAIS NOVOS-CAICO AREA HAS BEEN
KNOWN SINCE 1942, WHEN AREA WAS FIRST SURVEYED IN
DETAIL (IN SEARCH FOR TUNGSTEN). NEW UEKI AND AVILA
DA LUZ ANNOUNCEMENTS, BASED ON WORK BY PROJECTO RADAM
TECHNICIANS AND CPRM GROUND SURVEY TEAMS, THUS ARE

MOST USEFULLY VIEWED SIMPLY AS UP-TO-DATE CONFIRMATION - AND INITIAL QUANTIFICATION - OF AREA'S RICH IRON ORE POTENTIAL, NOT AS REVELATION OF MAJOR "NEW" RESERVES. FURTHER, 3 BILLION TON FIGURE IS BASED ONLY ON VERY PRELIMINARY AERIAL AND GROUND SURVEYS, WITH RELIABLE ESTIMATES OF AREA'S ACTUAL IRON RESERVES NOT AVAILABLE FOR SOME TIME (POSSIBLY ONE YEAR OR MORE), ACCORDING TO INFORMATION OBTAINED BY AMCONSUL RECIFE.

3. IF ACCURACY OF 3 BILLION TON ESTIMATE FOR RN IRON DEPOSITS IS CONFIRMED, FUTURE PROSPECTS FOR GIANT CARAJAS IRON ORE PROJECT IN STATE OF PARA COULD BE MODIFIED. IN THIS CONNECTION, ALTHOUGH GOVERNMENT AND CVRD SOURCES DENY THAT CARAJAS' FUTURE WOULD BE DIMMED BY SUCH CONFIRMATION, INDUSTRY OBSERVERS SPECULATE THAT PROVEN EXISTENCE OF UP TO 3 BILLION TONS OF HIGH-GRADE HEMATITE LOCATED LESS THAN 200 KMS FROM ATLANTIC COAST WOULD FORCE GOB PLANNERS TO TAKE HARD LOOK AT MEDIUM TERM (I.E. THROUGH 1990) VIABILITY OF CARAJAS. VERIFICATION OF EXTENT OF RN DEPOSITS COULD AT LEAST CAUSE YET ANOTHER DELAY IN CARAJAS' IMPLEMENTATION, SINCE CURRAIS NOVOS-CAICO RESERVES COULD BE DEVELOPED MORE QUICKLY AND, PRESUMABLY, AT SIGNIFICANTLY LOWER COST THAN CARAJAS. HOWEVER, CVRD SOURCES ARGUE THAT THE LACK OF WHAT THEY CON-

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SIDER TO B ADEQUATE DEEP-WATER PORT FACILITIES AND INFRASTRUCTURE NEAR THE NEW RN DISCOVERIES, PLUS THE MAGNITUDE OF CARAJAS' MASSIVE (15-20 BILLION TON) RESERVES, CONTINUE TO MAKE THE LATTER A VIABLE PROPOSITION, IN SPITE OF THE PRESUMED EXTENT OF RIO GRANDE DO NORTE DEPOSITS.

4. ON BALANCE, IT IS NOT YET CLEAR WHETHER DEVELOPMENT OF THE CURRAIS NOVOS-CAICO IRON ORE RESERVES WILL IN FACT MOVE FORWARD IN THE NEAR OF MEDIUM TERM, PARTICULARLY BECAUSE OF THE CURRENT DEPRESSED STATE OF OVERSEAS IRON ORE EXPORT MARKETS. AS REGARDS ACTUAL DEVELOPMENT OF IRON DEPOSITS, AMCONSUL RECIFE HAS LEARNED THAT SEVERAL FIRMS HAVE APPLIED TO DNPM FOR PERMISSION TO EXPLORE FOR IRON ORE IN AREA. HOWEVER, GIVEN THE MAGNITUDE OF THE RESOURCES REQUIRED (ASSUMING DISCOVERY NEAR THE ESTIMATED 3 BILLION TON MARK), IT IS UNLIKELY THAT THE RESERVES WILL BE DEVELOPED WITHOUT SIGNIFICANT GOVERNMENT ASSISTANCE.

5. IN FINAL ANALYSIS, POLITICAL - SPECIFICALLY REGIONAL DEVELOPMENT - CONSIDERATIONS MAY PLAY A KEY

ROLE IN GOB'S EVENTUAL DECISION ON PROJECT'S VIABILITY.
THUS, BOTH NEED TO PROVIDE STIMULUS TO DEPRESSED
NORTHEASTERN BRAZILIAN AREA AND NORMAL ECONOMIC/
COMMERCIAL FACTORS WILL BE IMPORTANT IN DETERMINING
WHETHER - AND WHEN - TO BEGIN DEVELOPMENT OF RIO
GRANDE DO NORTE RESERVES. IN EITHER INSTANCE,
EVENTUAL DEVELOPMENT OF THE NEW DEPOSITS MUST AWAIT
THE RESULTS OF AT LEAST ONE YEAR OF FURTHER
GEOLOGICAL SURVEY WORK TO DETERMINE MAGNITUDE AND
COMPOSITION OF RESERVES, AND MAY, IN ANY CASE, BE
DELAYED UNTIL RECESSED CONDITIONS IN THE WORLD
STELL INDUSTRY IMPROVE. END COMMENT. END LIMITED
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